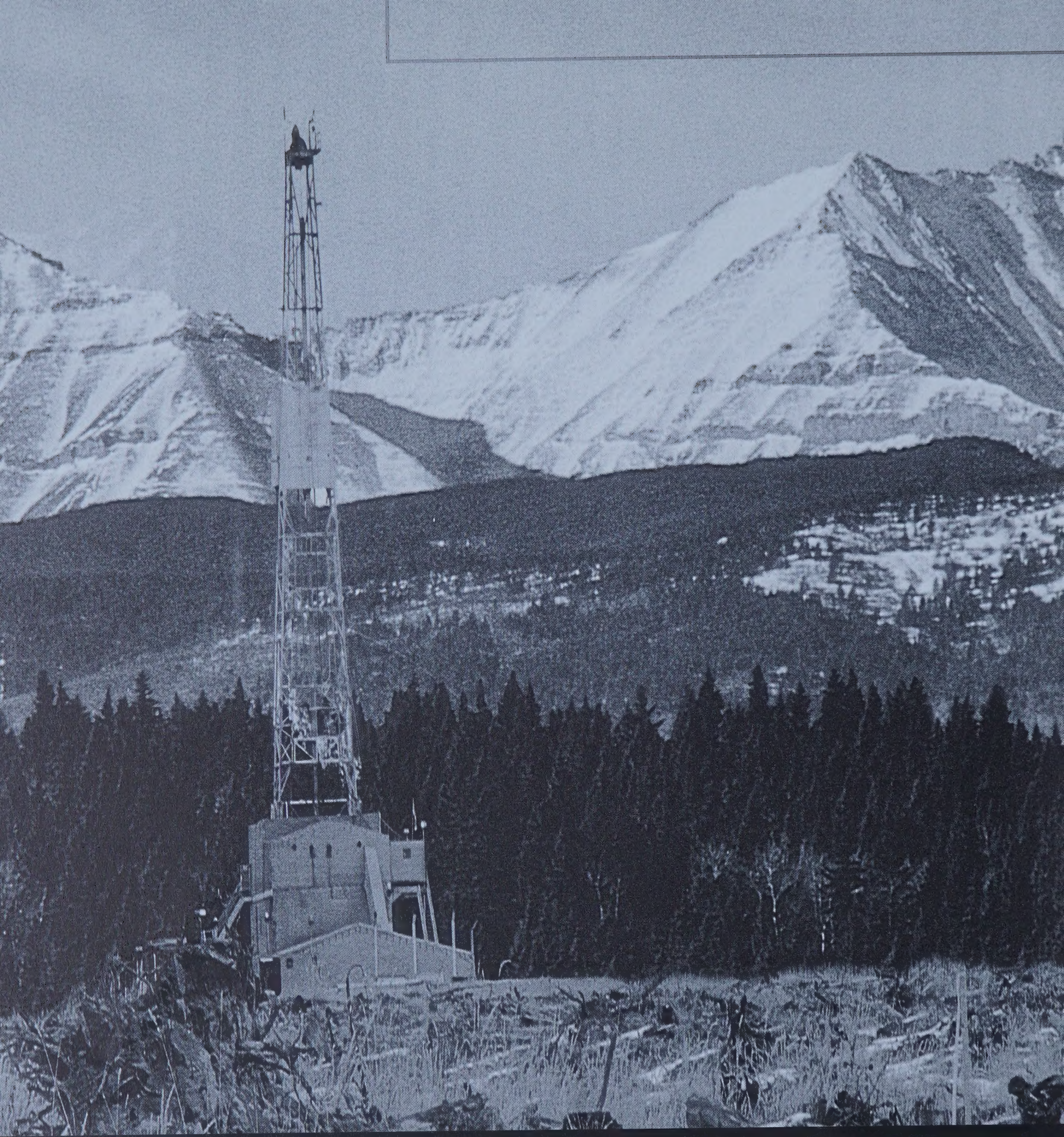
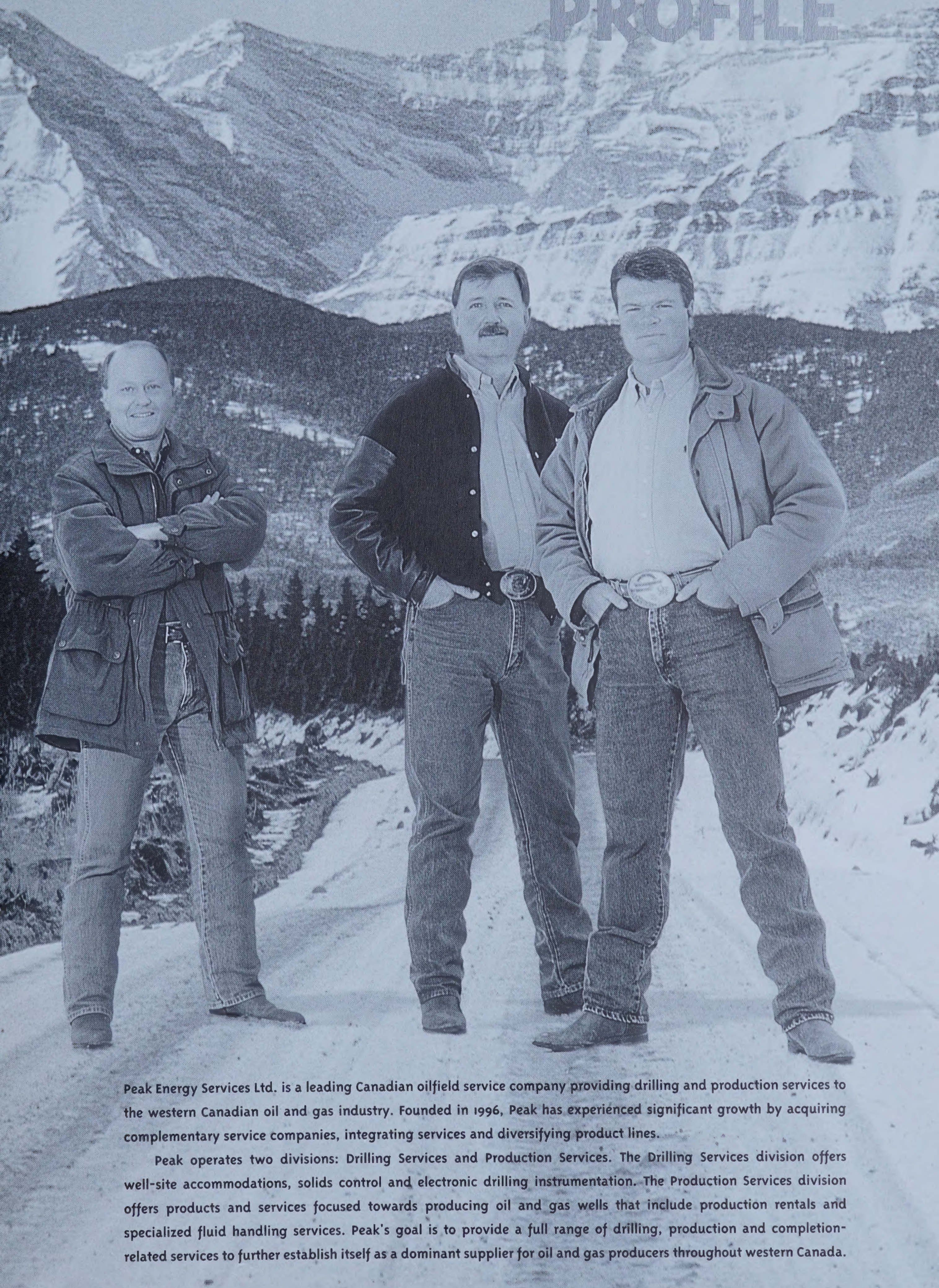
PEAK ENERGY SERVICES LTD.

1999 ANNUAL REPORT

POSITIONED FOR PROFITABILITY



CORPORATE PROFILE



Peak Energy Services Ltd. is a leading Canadian oilfield service company providing drilling and production services to the western Canadian oil and gas industry. Founded in 1996, Peak has experienced significant growth by acquiring complementary service companies, integrating services and diversifying product lines.

Peak operates two divisions: Drilling Services and Production Services. The Drilling Services division offers well-site accommodations, solids control and electronic drilling instrumentation. The Production Services division offers products and services focused towards producing oil and gas wells that include production rentals and specialized fluid handling services. Peak's goal is to provide a full range of drilling, production and completion-related services to further establish itself as a dominant supplier for oil and gas producers throughout western Canada.

LETTER to SHAREHOLDERS

FELLOW SHAREHOLDERS,

Nineteen ninety-nine was a very challenging year for the Canadian oil and gas services sector. Activity levels were very volatile, going from near record low levels of activity in the second quarter to a very strong turnaround in the fourth quarter. Managing this rapid change in activity levels created many challenges for Peaks' management team. In spite of this, Peak revenues remained at 1998 levels and our cash flow from operations increased from $7.5 million in 1998 to $8.8 million in 1999. This was the direct result of realizing a full year's impact from our expansion in our Production Services division in the last half of 1998, increased market penetration of our drilling instrumentation products, the formation of Rocky Mountain Energy Services, a 50 percent expansion of our solids control assets and the realization of a significant cost cutting program that was implemented at the end of 1998 and completed in the first half of 1999.

Positioning For Profitability

The past year continued to present many challenges to the oil and gas services industry due to continued low oil prices. In spite of increased OPEC production cuts announced in March 1999 and the resultant recovery in oil prices, the Canadian oilfield services industry continued to feel the negative impact of the prior eighteen months of low prices. Oil and gas producers took advantage of higher oil prices to strengthen their balance sheets by reducing debt. This resulted in record low utilization rates in the second quarter, averaging 20 percent. It was not until the fourth quarter of 1999 that the impact of higher oil prices began to positively influence activity levels in the field.

In response to this environment, our management team undertook several proactive initiatives throughout the year that has put us in the position to generate superior profits with increased activity levels. These initiatives included the selling of our non-core polyurethanes subsidiary in April 1999, the closing and sale of the assets of a non-core oilfield hauling subsidiary and the formation of Rocky Mountain Energy Services, which resulted from the merger of Zeta Oilfield Rentals Partnership and Lykal Industries Partnership. These initiatives reduced our cost structure by approximately $4.0 million in the first nine months of 1999 and resulted in Peak maintaining profitability in 1999 when many in our peer group generated significant losses.

Benefiting From Our Strategy

Peak's main objectives in 1999 were to reduce our cost structure and increase the liquidity of our financial resources.

Christopher E. Haslam, CMA, CBV
President and Chief Executive Officer

We were successful in achieving both of these objectives. As outlined above, we were successful in reducing our cost structure by $4.0 million in the first nine months of 1999. We significantly increased our liquidity by arranging a $50 million credit facility in March 1999 which immediately increased our working capital position and provided us with additional borrowing capacity to take advantage of acquisition opportunities. To that end, in October 1999, we expanded our solids control business by 50 percent by acquiring the solids controls assets of a competitor from its receiver. This acquisition proved to be very timely as our existing fleet of solids control equipment was already heavily booked for the winter drilling season.

Throughout the year, our shareholders began to realize the benefits of our diversification strategy over the prior two years. Our main strategy was to reduce the seasonality of our business by having a greater portion of our revenue stream generated by our Production Services division. This objective was realized in 1999, as our Production Services division accounted for 39 percent of total revenue, compared to 30 percent in 1998 and 17 percent in 1997. With the recent resurgence in drilling activity, we expect Production Services revenue will total 33 percent of total revenue in 2000.

Providing Logistical Support Through Two Distinct Divisions

Peak Energy Services Ltd. provides our customers with logistical support to meet their ancillary equipment and service requirements for producing oil and gas wells and the drilling of new wells. Our business is separated into two distinct divisions; Drilling Services and Production Services. These divisions offer our customers a fully-integrated services package, allowing them to operate more efficiently by dealing with fewer suppliers for their ancillary equipment needs. Our Drilling Services division is comprised of three distinct product lines: well-site accommodations, solids control and electronic drilling instrumentation.

Peak owns and operates a fleet of 355 well-site accommodation units that we rent or lease to oil and gas companies whose remote drilling locations require on-site housing and work stations for technical staff. We have grown from a fleet of less than 50 units in 1996 to become the largest supplier of well-site accommodations in the industry. The well-site accommodation market is more reliant on the level of mid to deep drilling depths and horizontal drilling as these activities typically require a greater number of accommodation units due to the increased number of technical staff on location versus shallow depth vertical drilling.

Our solids control equipment is used in controlling drilling fluids and other environmental applications. Our primary source of revenue in this division is derived from the rental of sumpless drilling systems to customers in the oil and gas industry. These systems are comprised of a series of tanks and centrifuges that remove well-bore cuttings from drilling fluids. We have seen exponential growth in our solids control business – going from 16 sumpless systems in August 1997 to 125 at December 31, 1999 – making us the second largest provider of solids control equipment in Canada. In October 1999, we acquired a total of 41 centrifuges from a competitor in receivership. This acquisition increased our fleet by 50 percent – from 84 units to 125. This new equipment was fully integrated with our existing fleet by the end of 1999.

In drilling instrumentation, we are a dominant manufacturer and supplier of drilling instrumentation and monitoring equipment in western Canada. In 1997, this division was established with the acquisition of Chimo Equipment Ltd. Through this strategic acquisition, Peak gained a key competitive advantage with Chimo's advanced computerized Electronic Drilling Recorder ("EDR"). This superior technology presents excellent growth opportunities as it allows producers to acquire real-time data from the drill site that ultimately helps to reduce drilling costs. With an increased emphasis on data acquisition and management at the drilling site, Chimo continues to broaden its fleet of EDRs, having added 25 units in the fourth quarter. As well, the Company is now able to provide more timely data to its customers. During the last half of 1999, Chimo began the development of an Internet data server that allows our customers to monitor their remote drilling operations in real-time using the Internet. In addition, Chimo has continued to expand its product line by introducing gas detection equipment to complement its existing lines of monitoring equipment. Both of these expansion initiatives were started in the last quarter of 1999; however, their impact will not be fully realized until the last half of 2000.

Our Production Services division was a key area of diversification for Peak over the past eighteen months. This division experienced strong growth due to the full year's impact of the 1998 acquisitions of Zeta Oilfield Rentals Ltd. and Lorchem Industries Ltd. Zeta was subsequently merged with Lykal Industries Partnership to form Rocky Mountain Energy Services, which now offers a full suite of both drilling and production services equipment to its customers throughout western Canada. Through our subsidiaries, Peak provides a variety of services focused towards producing oil and gas wells including production rentals such as tanks, pressure vessels, tubulars, pumps, treaters, and frac packages. As well, we offer specialized fluid handling services providing the transportation and handling of oilfield related fluids.

Outlook

Nineteen ninety-nine was a year of positioning for Peak Energy Services Ltd. All of the initiatives undertaken were to position our business to generate superior profits once activity levels returned. The benefits of strong hydrocarbon prices and our long-term growth strategy began to have a positive impact on our business in the fourth quarter of 1999 and into the first quarter of 2000. We generated a record level of revenue in January 2000 that was then surpassed in February 2000. This is in spite of the fact that, while our day rates have shown recent improvement, they still remain approximately 15 percent below the levels achieved in late 1997 and the first quarter of 1998. As the year progresses, we expect to see our day rates continue to increase.

During the upcoming year, our focus will be to continue to grow our business both internally and to seek complementary acquisitions. Our capital expenditure budget totals $7.0 million, which will be financed with cash flow from operations. Of the total budget, $3.0 million will be used for maintenance capital expenditures throughout our organization, while the remaining $4.0 million will be invested within our Drilling Services division with the continued expansion of our drilling instrumentation business. The balance of our cash flow from operations will be utilized to reduce our outstanding long-term debt.

Beyond 2000, we believe the Canadian oil and gas services business will benefit greatly from increased oil prices and the strong fundamentals for natural gas prices. As a major supplier of equipment to the oil and gas industry, we will continue to expand in our existing business lines as well as seek out new service areas in which we are not currently involved. This growth will be complemented by our constant review of our operations at all levels to ensure that we are operating as efficiently as possible.

Finally, on behalf of the Board of Directors and the senior management of Peak, I would like to extend my appreciation to all of the employees of Peak Energy Services Ltd. and our subsidiaries for their hard work and commitment over the past year. While it was a year of challenge, we are now beginning to realize the positive impact of their dedication in making Peak Energy Services Ltd. a highly profitable, dominant service provider. Their continued loyalty will ensure our success as we enter a new era in the Canadian oil and gas services industry.

On behalf of the Board of Directors,

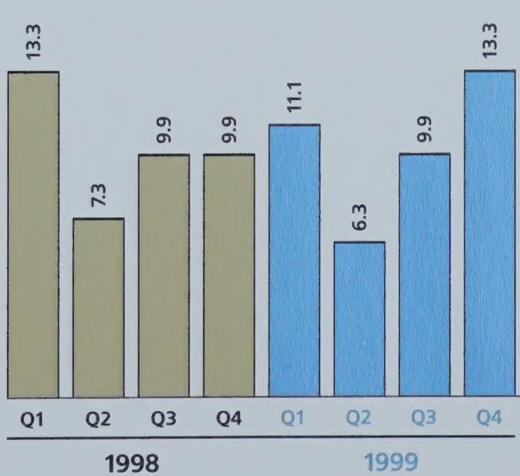
Christopher E. Haslam, CMA, CBV
President and Chief Executive Officer
March 15, 2000

December 31 (in thousands of dollars)	1999	1998
REVENUE	**$ 40,573**	$ 40,452
NET INCOME FROM CONTINUING OPERATIONS	**$ 1,004**	$ 1,689
per share (fully diluted)	**$ 0.03**	$ 0.04
EBITDA	**$ 10,115**	$ 11,537
CASH FLOW	**$ 8,762**	$ 7,463
per share (fully diluted)	**$ 0.25**	$ 0.21
CAPITAL EXPENDITURES	**$ 11,757**	$ 19,727
CURRENT ASSETS	**$ 17,377**	$ 11,942
TOTAL ASSETS	**$ 149,781**	$ 139,017
LONG-TERM DEBT	**$ 44,866**	$ 32,469
TOTAL LIABILITIES [1]	**$ 71,123**	$ 45,972
SHAREHOLDERS' EQUITY [1]	**$ 78,658**	$ 93,045
NUMBER OF COMMON SHARES OUTSTANDING (000s)	**34,211**	35,018

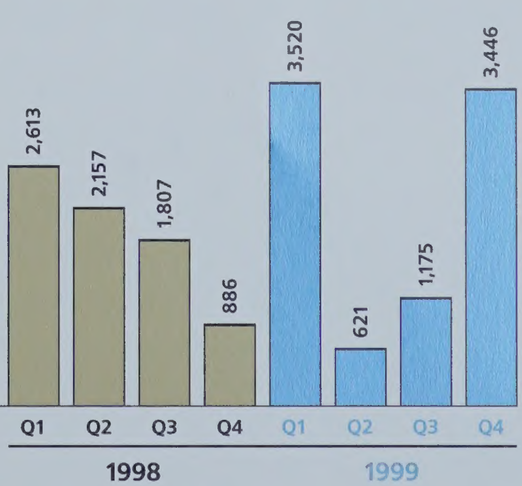
NOTE 1:
Total liabilities include future income taxes (1999 – $19,646, 1998 – $4,252). The significant increase in future income taxes in 1999 is directly due to the Company electing to adopt early the CICA handbook section 3465. The change in policy resulted in the setup of an additional $13.4 million in future tax liability which has been offset to opening retained earnings in 1999. Refer to Note 2 of the financial statements for further details.

The ability to sustain revenue and show positive earnings in a year which, up until the last quarter of 1999, was shaping up to be potentially the worst on record, reflects Peak's carefully planned and executed diversification and consolidation strategy that was implemented throughout 1999.

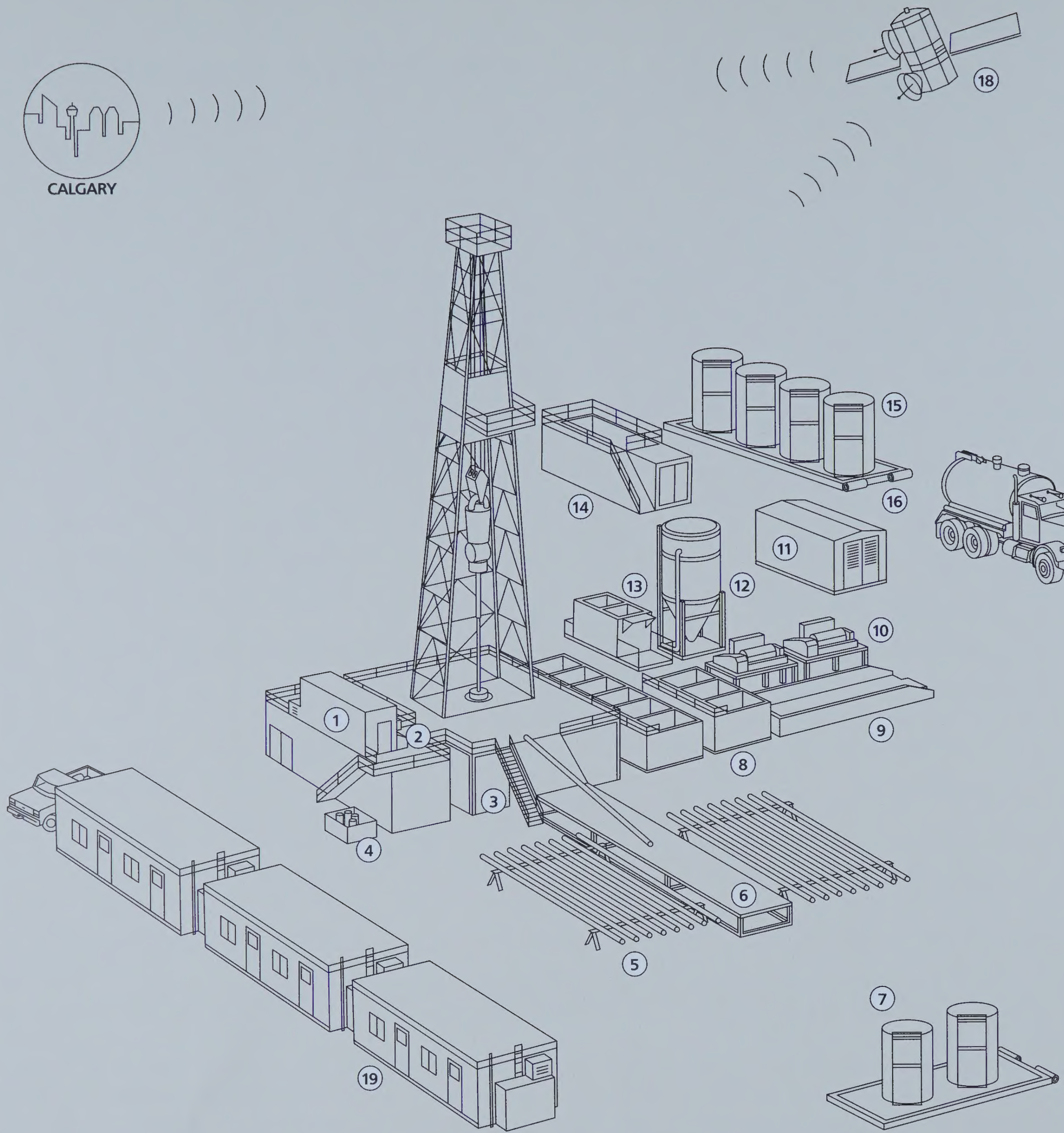
The significant strengthening of cash flow in the fourth quarter of 1999 (up 193 percent over Q3, 1999 and 289 percent over Q4, 1998) reinforces Peak's exceptional positive leverage to increasing activity levels.



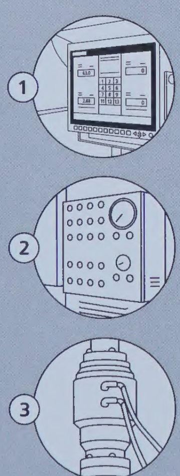
REVENUE ($ millions)



CASH FLOW ($ thousands)

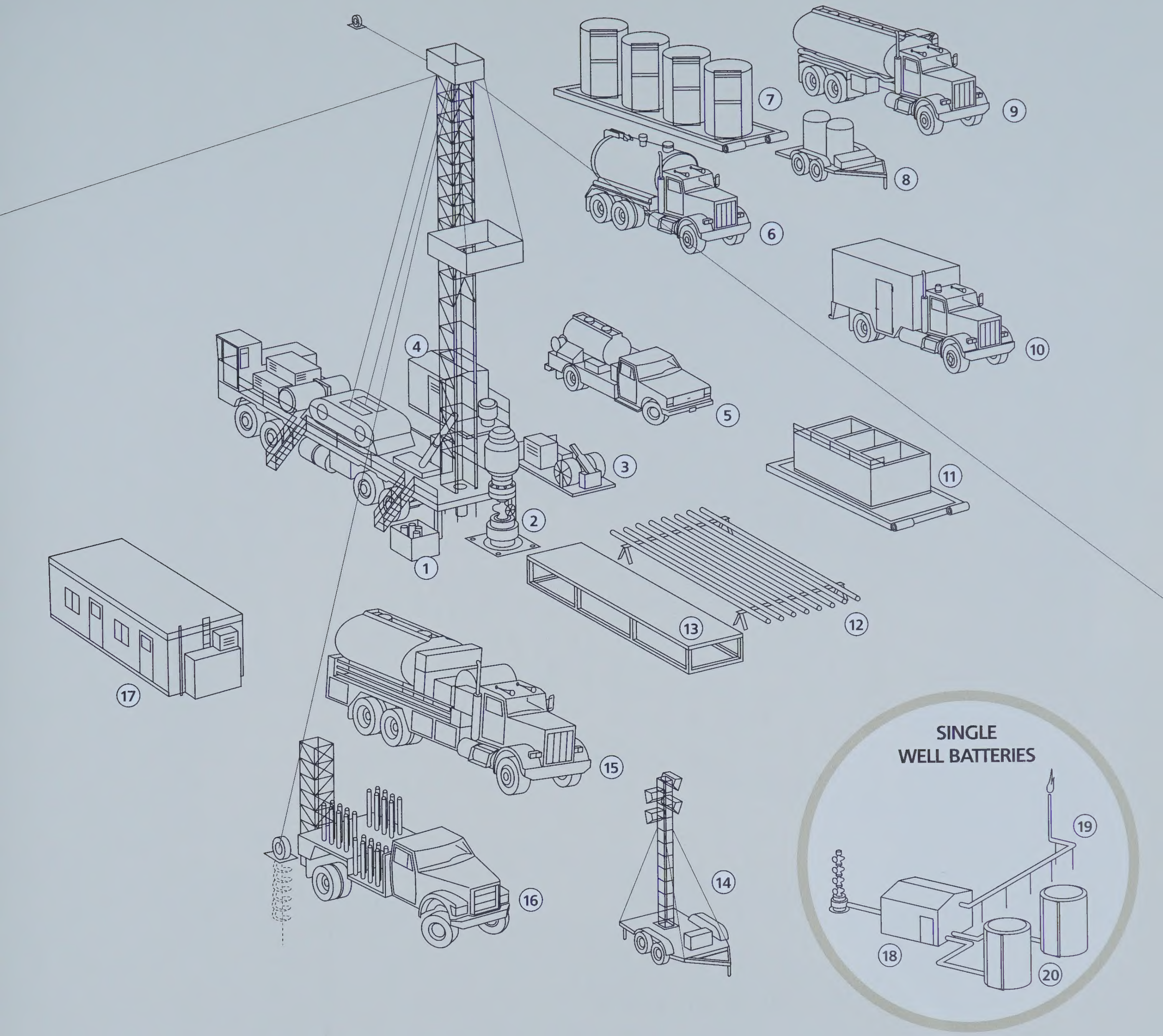


DRILLING SERVICES



1. Electronic Drilling Recorder/Pit Volume Totalizer
2. Choke Panel & Actuator
3. Blow Out Preventor
4. Subs, Valves, Flanges, Handling Tools
5. Drill Pipe, H.W. Drill Pipe, Drill Collars
6. Catwalk
7. Cement Bin & Water Tank
8. Surface Tank
9. Shale Sloop
10. Centrifuge
11. Generator
12. Cone Tank
13. Polymer Tank
14. Premix Tank
15. Mud Storage Tanks (400 BBL Tanks)
16. Rig Matting
17. Vacuum Truck
18. "Real Time" Data Transmission
19. Well-site Accommodations

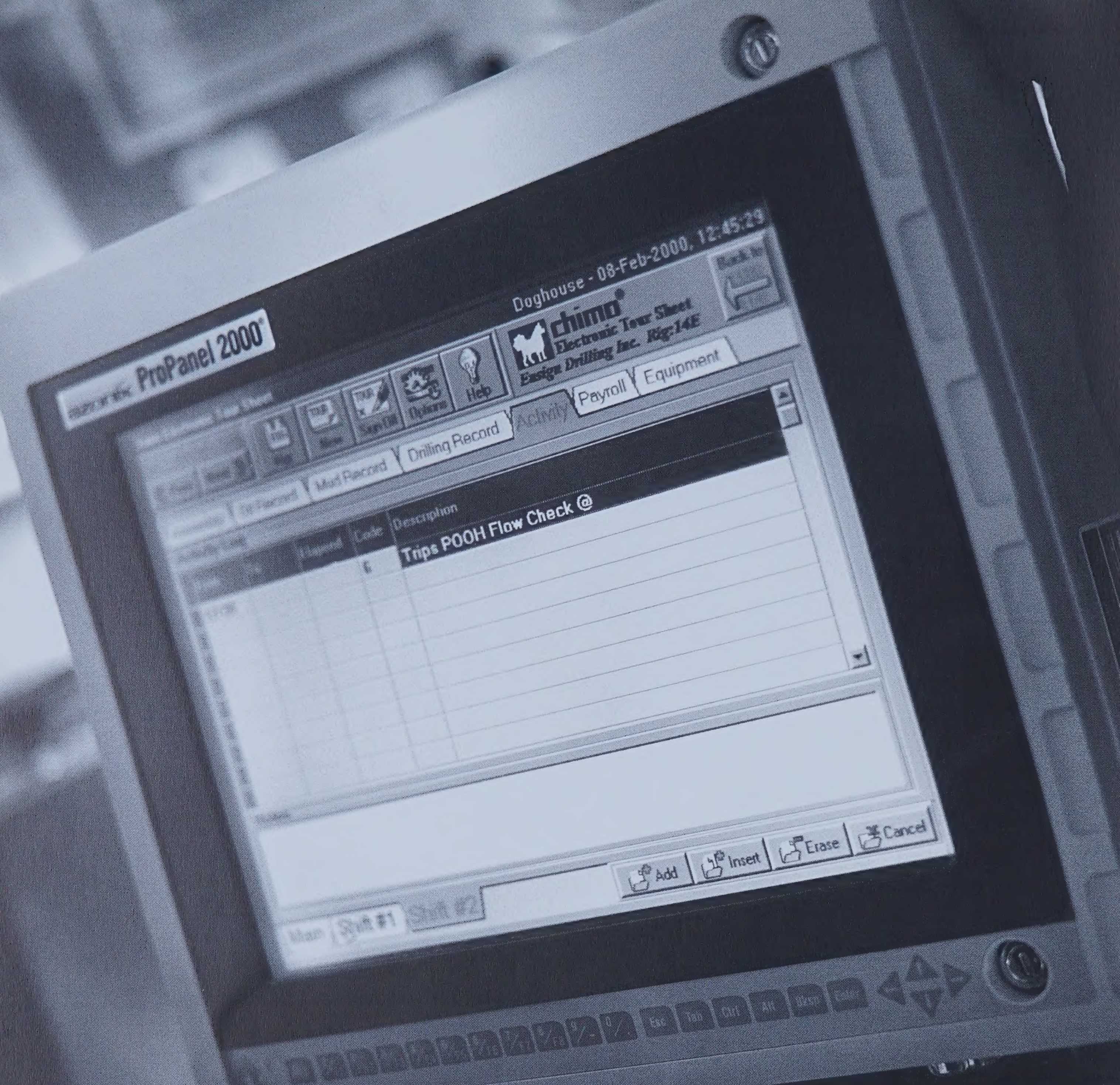
This represents a selection of the various services and rental equipment that Peak provides through its Drilling Services division.



PRODUCTION SERVICES

1 — Subs, Valves, Flanges, Handling Tools, Pup Joints
2 — Wellhead with Blow Out Preventor
3 — Power Swivel
4 — Accumulator
5 — Pressure Truck
6 — Vacuum Truck
7 — Frac Tanks with Matting
8 — Filter Unit
9 — Tank Truck
10 — Steam Truck
11 — Rig Tank with Matting
12 — Production Tubing, Frac Pipe, Workover Tubing
13 — Catwalk
14 — Light Tower
15 — Hot Oiler Truck
16 — Anchor Truck
17 — Well-site Accommodations
18 — Separator
19 — Flare Stack
20 — Production Tank

This represents a selection of the various services and rental equipment that Peak provides through its Production Services division.



SERVICING OUR CUSTOMERS

Peak's subsidiary companies operate from strategic locations throughout the western Canadian sedimentary basin. Peak believes that our ability to provide high quality, comprehensive service packages for our customers over a broad geographic region, is our main competitive advantage.

production services

drilling services

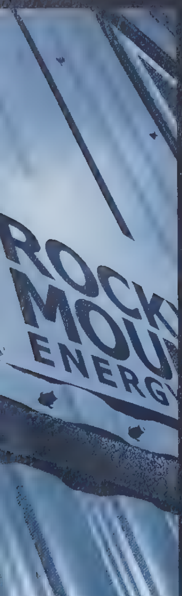
GROWTH STRATEGY

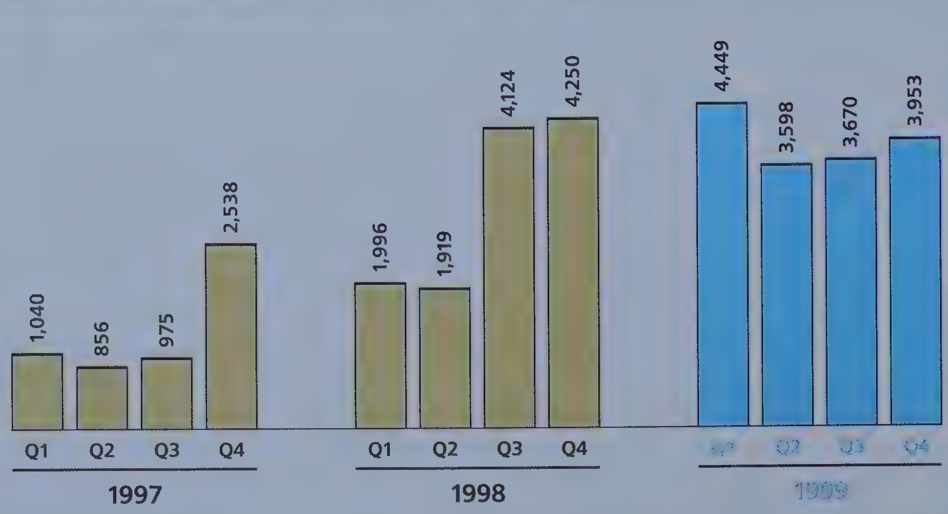
OUR strategy for growth has remained intact since our inception in 1996. This strategy has been to capitalize on producer's demands to reduce the number of suppliers they deal with and develop long-term relationships with companies that can supply them with an integrated package of services and equipment over a broad geographic region. Our growth has been fueled by a combination of strategic acquisitions and internal expansion.

Over the past four years Peak has completed a total of 15 acquisitions totaling $94 million and invested in excess of $50 million internally. We have proven our ability to manage successfully this rapid growth as we now operate our business under four business units that work in two distinct divisions: Drilling Services and Production Services. These subsidiaries operate from strategic locations throughout the Western Canadian Sedimentary Basin. This broad geographic coverage gives our customers convenient access to our rental fleet in the many remote areas in which they operate. Peak enjoys a reputation of supplying superior equipment and high quality service to its customers. Our customer base is made up of over three hundred operators including the top fifteen most active operators in Canada. We have developed strong alliances with most of these active operators. Our strategy is working.

Peak's future growth will continue to be fuelled by management's proven ability to identify and to acquire companies and assets that will allow us to broaden the package of services we offer our customers while generating acceptable returns on invested capital. With the resurgence in activity levels in recent months, sourcing these opportunities that generate an appropriate return on invested capital will be challenging as pricing expectations of potential acquisition targets have firmed. As a result, our focus in the immediate future will be on internally expanding the infrastructure we have built over the past four years. Our capital expenditure budget for the coming year totals approximately $7 million. Of this total, approximately $3 million will be utilized to maintain our existing fleet of equipment to the high standards we have set for ourselves and are enjoyed by our customers. The remaining $4 million will be focused on expanding our drilling instrumentation, well-site accommodation and production services businesses. This capital expenditure program will be completely financed from cash flow from operations. While our focus will be on internal expansion, we will continue to seek complementary acquisitions that broaden the package of services we offer our customers; as our management team believes that the current climate in our industry is one that will continue to drive future consolidation and rationalization in both the producing and service sectors of the oil and gas industry.

Peak's strong asset base, which continued to grow steadily over the past two years, will allow the Company to deliver superior results now that activity levels have improved.





REVENUE ($ thousands)

OPERATIONS OVERVIEW

OVER the past two years it has been a main objective of management to expand its Production Services division to reduce the the effect of seasonality and cyclicality of our larger Drilling Services division.

PRODUCTION SERVICES

Our Production Services division provides a full range of equipment and services that play a key role in maximizing the productivity of a well-bore. We have seen significant growth in revenue year over year in this division, increasing revenue from $12.3 million, or 30 percent of Peak's revenue in 1998, to $15.9 million, or 39 percent in 1999. This growth primarily reflects the full year inclusion of the Zeta and Lorchem acquisitions, which were completed in mid-1998. Management also successfully formed a new subsidiary company, Rocky Mountain Energy Services. This new subsidiary began operations effective July 1, 1999, and was the result of consolidating Buzzard, Central Pump, Dependable, Lykal, Tankmaster and Zeta. The formation of this new subsidiary company gave our Production Services division two significant advantages: a broader geographic area over which to market our products and the operating efficiencies that were realized through the consolidation process.

PRODUCTION RENTALS

Peak's production rentals business operates as Rocky Mountain Energy and is based in Red Deer, Alberta. This company provides a full suite of production rental equipment including tanks, pumps, separators, pressure vessels, tubulars, handling tools, power swivels, accumulators, blowout preventors, rig tanks, flare stacks and ancillary fracturing equipment. Rocky's production rental business also operates from five additional stations. These strategically located stations are in Grande Prairie, Slave Lake, Nisku, Brooks in Alberta and Estevan, Saskatchewan. Peak also operates a small, profitable subsidiary involved in providing tension-anchoring services to the industry, primarily for service rigs. This subsidiary operates under the trade names of *Anchor King* in Red Deer, Stettler, Slave Lake and *Anchor Specialties* in Chauvin, Lloydminster and Macklin, Saskatchewan.

SPECIALIZED FLUIDS HANDLING

This business unit is operated under the trade name Lorchem Industries based in Devon, Alberta. Lorchem manages a fleet of modern, well maintained tank trucks that handle all types of oilfield fluids including produced oil, slop oil, acid, frac fluid, methanol, glycol etc. Lorchem Industries also provides vacuum trucks, pressure trucks, industrial cleaning and hot oiler services to the oil and gas industry.

Lorchem also has station in Ft. McMurray where it is under contract to Syncrude Canada. The scope of this contract is to look after all of Syncrude's fluids handling needs on their oil-sands site. Lorchem also supports its customer base by providing a full package of services in two smaller stations located in Calmar and Red Deer.

Peak believes that our ability to provide comprehensive service packages for our customers over a broad geographic region is our main competitive advantage in this area. Our mission is to continue to develop relationships and to provide high quality service and equipment that will help our customers reduce their production costs at the wellhead.

DRILLING SERVICES

WELL-SITE ACCOMMODATIONS

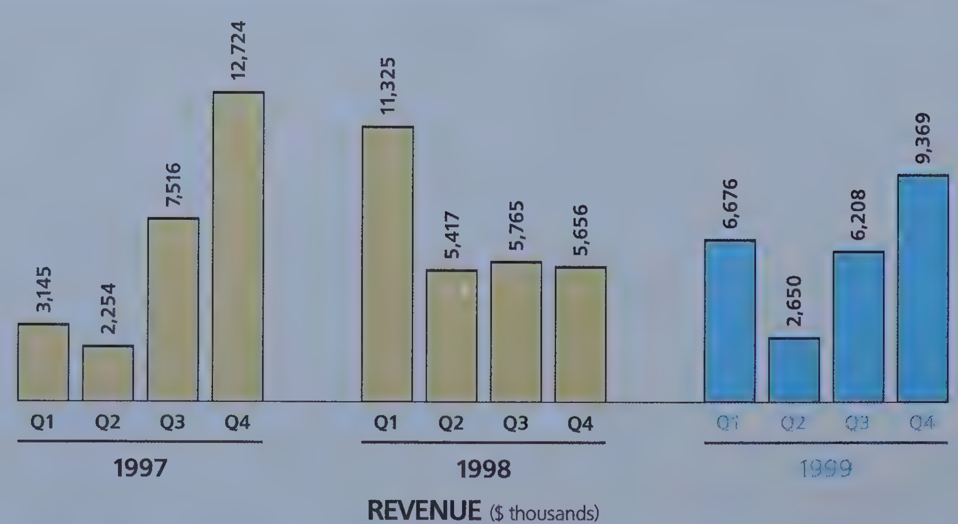
Peak's well-site division is engaged in manufacturing and rental of high quality well-site accommodation units used as living quarters for engineers, geologists, and other technical staff who are required to reside on remote locations. With these personnel being required on location 24 hours a day over an extended period of time, it is important that these units are equipped with state of the art amenities and that they are in top notch working order. Over the past year we have not expanded the number of units in our fleet, but we have redesigned a certain percentage of our fleet to better meet the ever-changing needs of our customers. We can assure our customers that we can look after their needs because of the competitive advantage we have over the majority of our competitors since we design, build and maintain our fleet from our own state of the art manufacturing facility.

Our well-site accommodation business runs under the umbrella of our Rocky Mountain Services subsidiary. The head office and manufacturing plant are based in Red Deer with further support from five other strategic geographic regions in Grande Prairie, Slave Lake, Nisku, Brooks and Estevan. These five stations all run full-service operations to better serve our customers over a broader geographic region.

Peak is well positioned for the future in the well-site market as it maintains a broad client base with key customers who are heavily involved in the horizontal drilling markets – a large percentage of whom are highly leveraged to gas production. With commodity prices firming in 1999, the percentage of horizontal wells and deeper gas wells drilled in the Western Canadian Sedimentary Basin in 2000 should be substantially higher than what the industry has experienced over the past year. For these reasons Peak expects utilization rates to show a significant improvement in 2000. Management is also looking at a business plan that will better utilize its excess plant capacity in addition to expanding its existing client base for portable housing/office needs in other industries.

This business is expected to contribute approximately 16 percent of Peak's total revenue for 2000. Capital expenditures will be approximately $2.5 million; the majority of which is to be spent on up to 20 new builds while the balance on refurbishing our existing fleet. The number of new builds will be highly dependent on the activity levels we are experiencing later in the year. Both the new builds and the refurbishments will further strengthen our position in what is expected to be a busy year in 2000 and beyond.

$24 MILLION
DRILLING SERVICES



IDENTIFYING EFFICIENCY

SOLIDS CONTROL

Peak's solids control division is primarily used to remove well-bore cuttings from drilling fluids. Although there are other applications for this equipment, our main source of revenue in this division is through the rental of sumpless drilling systems. The nucleus of these sumpless drilling systems is our high-speed centrifuge. Surrounding the centrifuge is a series of pumps and tanks that are packaged to meet the exact specifications required by our customers. After the well-bore fluid is processed through the primary solids control equipment on the drilling rig, it then goes through our sumpless drilling packages for final separation of fine particulate matter before the fluid is re-circulated down the well-bore. This type of equipment is very important to the success and safety of the drilling operation, more predominantly in deeper drilling and horizontal applications. If the solids content of the drilling mud is not strictly controlled, it can cause formation damage, well-bore integrity problems that can lead to expensive downhole tools becoming damaged or lost in the well-bore and well control problems.

This division has experienced exponential growth since our entry into the market in August of 1997. At that time, we had 16 units and a 4 percent market share, today we have 125 units and a 20 percent market share. Peak's solids control division has become the second largest supplier of solids equipment in Canada. This rapid growth in market share has been due to a combination of internal capital expenditures and opportunistic acquisition. In October 1999, we expanded our solids control division by 50 percent with the acquisition of 41 centrifuges. This asset purchase was opportune, both from a timing and pricing perspective. This equipment was purchased for a total of $6.6 million or $0.68 per dollar based on replacement cost at a time when our existing fleet was running at close to capacity. These assets are all state-of-the-art requiring very little in the way of capital improvements. The centrifuges are field ready and complementary to our existing fleet and infrastructure.

Peak's solids control division runs under the Rocky Mountain Energy subsidiary based in Red Deer. This division also has strategically located stations in Grande Prairie, Slave Lake, Nisku, Brooks and Estevan. Being located in these regions gives our customers access to equipment and service personnel throughout the Western Canadian Sedimentary Basin. Peak's competitive advantage in this division is derived from growth that, for the most part, has come through the addition of state-of-the-art equipment, giving us a distinct advantage in the age and quality of our rental fleet, complemented by our strong reputation for quality service.

Despite a significant decline of drilling activity in 1999, our solids control division generated $10.6 million or 26 percent of our total revenue for the 12 months ended December 31, 1999. This compares to $11.3 million or 28 percent of our total revenue for 1998. We were not able to realize the full impact of our acquisition of the 41 units in 1999 due to the logistics involved in mobilizing the equipment late in the year. This acquisition will have a significant impact on this division going forward into 2000. Capital expenditures on solids control equipment will be approximately $1.0 million for 2000. This marginal requirement for capital expenditures is a positive reflection on the high quality and age of our existing fleet.

DRILLING INSTRUMENTATION

Our drilling instrumentation division is engaged in the manufacturing and rental of electronic instrumentation equipment used to monitor, gather and record all critical data on the drill site. The two main pieces of equipment used in the drilling instrumentation division are the Pit Volume Totalizer (PVT) and the Electronic Drilling Recorder (EDR). The PVTs monitor drilling mudflow in and out of the well-bore. In critical sour gas and high-pressure areas, PVTs are required by government regulations to ensure environmental protection and safety of personnel by eliminating or reducing the chance of a blowout. The EDR is a real-time data gathering system that monitors up to 52 critical functions on the drill site. This division also offers a full suite of ancillary control items to its customers that further complement these two main products.

In addition to these critical functions being monitored, we now have our electronic tour book field tested and running. This electronic tour book is the daily income statement of the drilling rig and combined with an array of customized daily reports, puts all of the information being gathered on site into a legible industry accepted format for our customers to view. All of this data can then be transmitted in real-time from these remote locations to a head office for review and evaluation. To further enhance the quality, security and accessibility of this information, we have recently developed an Internet data server that will be a vehicle for our customers to store and access this information in a professionally managed and secure offsite database.

We anticipate this business will see significant year over year growth with the addition of the Internet data server and a portable gas detection unit, both to be introduced in early 2000. These new products, combined with other management initiatives currently under way will further enhance this opportunity for growth.

Peak operates this division under the Chimo Equipment Ltd. subsidiary with its head office in Calgary, Alberta. Chimo also operates from a manufacturing and service center in Nisku and two strategically located field stations in Grande Prairie and Brooks. In 1999, this business also introduced its technology to the U.S. market where it currently operates 10 units in the Gulf Coast region. This U.S. operation is based in Houma, Louisiana.

In 1999, Chimo generated $5.8 million in revenue or 14 percent of Peak's total revenue compared to $5.4 million or 13 percent in 1998. This growth in revenue was realized in spite of the significant decline in drilling activity seen in 1999. The drilling instrumentation division is expected to contribute approximately 18 percent of Peaks total revenue for 2000. We anticipate capital expenditures in this division to be approximately $3.5 million for 2000. This capital will be used to significantly increase the size of its rental fleet that is currently running at or near capacity.

OPERATIONAL ORGANIZATION CHART

PEAK ENERGY SERVICES LTD.

DRILLING SERVICES 1999 — 61% of revenue		PRODUCTION SERVICES 1999 — 39% of revenue		
Rocky Mountain Energy Services	**Chimo Equipment Ltd.**	**Rocky Mountain Energy Services**	**Peak Anchor Services**	**Lorchem Industries**
Drilling Related Rental Equipment	Electronic Drilling Instrumentation	Production Rental Equipment	Anchor Services	Speciality Fluids Handling
Well-site Accomodations Engineer/geologist units Command centers Office trailers Sleepers Custom design units Satellite systems **Solids Control** Sumpless drilling systems Centrifuges Surface tanks Sump tanks Shale sloops Cone tanks Premix tanks Polymer tanks Shale shakers Rig matting **Miscellaneous** Drill pipe HW drill pipe Drill collars Handling tools BOP equipment Accumulators Spools and flanges HCR valves Power tongs	Electronic drilling recorders (real time data acquisition) Pit volume totalizers Choke panels & actuators Gas detection Electronic tour sheet	**Production** Production tanks Production tubing Single well batteries Separators **Service Rigs** Rig tanks Rig matting Flare stacks Power swivels Workover tubing Handling tools Pup joints BOP equipment Accumulators Spools, flanges, valves Light towers Power tongs **Frac Packages** Frac tanks Frac heads Flow back tanks Frac tubing Filter units	Anchoring service rigs Anchoring flarestacks Industrial applications	Completion fluid hauling (frac fluid, acid etc.) Crude oil hauling Chemical hauling (methanol, glycol etc.) Water hauling Hot oiler units Pressure trucks Vacuum trucks Steamer units

Since our inception in June of 1996, Peak has completed a total of 15 acquisitions totaling $94 million and employed an additional $50 million of capital towards internal growth. These acquisitions are now managed under four operating companies that work in two distinct divisions — Drilling Services and Production Services. Peak's growth will continue to be fuelled by management's proven ability to identify and acquire companies and assets that will complement the package of services we offer our customers.

MANAGEMENT'S DISCUSSION & ANALYSIS

year ended December 31, 1999

THIS management's discussion and analysis focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to the oilfield service industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the year ended December 31, 1999, should be read in conjunction with the financial statements and related notes and material contained in other parts of this annual report. Please note that 1998 results have been restated for discontinued operations.

RESULTS OF OPERATIONS

Revenue

Peak reported total revenue of $40.6 million in 1999 compared to $40.5 million in 1998. The Company managed to generate flat revenue year over year despite a 33 percent decline in total meters drilled year over year and the significant shift to shallower gas wells during the year. The total metres drilled declined from 15.8 million in 1998 to 10.6 million in 1999. Of the wells completed, the average depth declined approximately 15 percent to 1,064 meters per well in 1999 compared to 1,251 in 1998 and the average days to complete a well declined by approximately 26 percent to 6.63 days in 1999 compared to 8.98 days in 1998. Oil wells completed in 1999 comprised 26 percent of the total well completions compared to 33 percent in 1998 while gas wells made up 60 percent of all the wells completed in 1999 compared to 48 percent in 1998. The full year impact of the acquisitions of Zeta Oilfield Rentals Ltd. ("Zeta") in June 1998 and Lorchem Industries Ltd. ("Lorchem") in August 1998 played a significant role in helping to minimize the negative impact of lower drilling activity and the shift to shallower gas drilling in 1999.

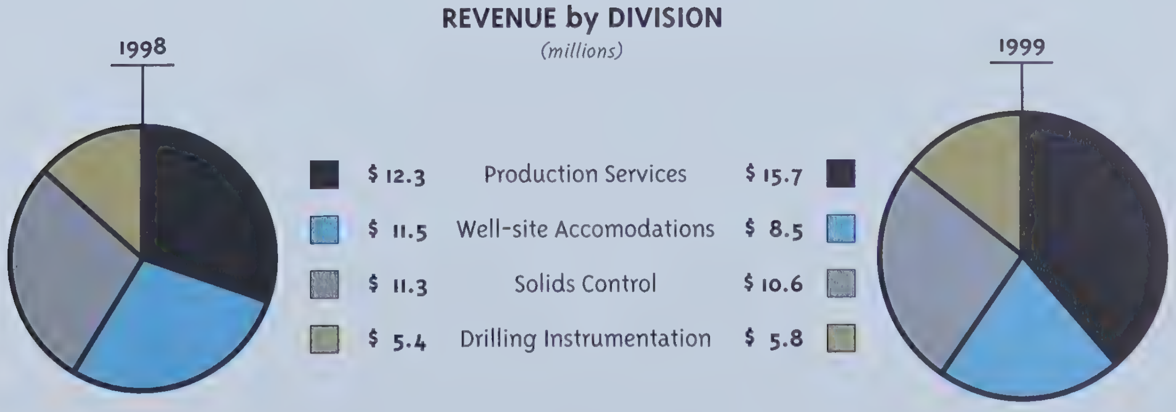
Drilling Services contributed 61 percent of revenues for 1999 compared to 70 percent in 1998. This division is comprised of the following services:

- Peak's well-site accommodations business contributed revenue of $8.5 million or 21 percent compared to $11.5 million or 28 percent in 1998. Revenues decreased due to the drop-off in activity noted above.
- Peak's solids control business contributed $10.6 million in revenues or 26 percent compared to $11.3 million or 28 percent in 1998. The slight decrease was due to the factors discussed above.
- Peak's drilling instrumentation business contributed $5.8 million in revenues or 14 percent compared to $5.4 million or 13 percent in 1998. The growth in revenue in this area, in spite of the general decline in activity, reflects the improving market acceptance of the Company's advanced computerized Electronic Drilling Recorder since its initial introduction in early 1998.

Peak's Production Services division contributed 39 percent of revenue for the year or $15.7 million in

REVENUE by DIVISION

(millions)



revenues compared to $12.3 million or 30 percent in 1998. The large increase was due primarily to the full-year inclusion of the Zeta and Lorchem acquisitions in mid-1998, as well as capital expenditures. One of management's main objectives for 1998 was to expand the Production Services division. This was achieved through a combination of internal capital expenditures and the acquisitions of Lorchem and Zeta. As a result, the Production Services division continues to have a positive impact on reducing the seasonality of our business as the Company now consistently generates approximately 35 percent of its revenue and EBITDA from this division.

Operating Expenses

Operating expenses, excluding external cost of sales of $1.5 million, were $16.1 million or 41 percent of operating revenue in 1999. By comparison, operating expenses prior to external cost of sales of $1.1 million, were also $16.1 million or 39 percent of operating revenue in 1998.

The main contributor to the higher operating costs as a percentage of sales year over year were the additions of the Zeta and Lorchem entities for all of fiscal 1999. Zeta was acquired by Peak in June of 1998 and Lorchem followed in August of the same year. The extensive cost reduction program completed by the Company over the past year is evident by the consistency of operating overhead year over year in spite of adding the operations of Zeta and Lorchem for a full year in 1999.

Excluding the operating expenses of these entities (to make the Company more comparable with the prior year) results in an actual decline in operating costs of approximately $3.3 million or 26 percent from $12.7 million in 1998 to $9.4 million for the twelve months ended December 31, 1999.

General and Administration Expenses

General and administration expenses were $12.9 million or 32 percent of operating revenue in 1999 compared to $11.7 million or 29 percent of operating revenue in 1998. The higher total cost structure in 1999 was directly attributable to the full-year inclusion of the Zeta and Lorchem acquisitions. Excluding the operating and general and administrative expenses associated with Zeta and Lorchem to make the Company more comparable with the prior year results in an actual decline in general and administrative expenses of approximately 6 percent or $0.6 million for the twelve months ended December 31, 1999. The Company's general and administrative expenses, excluding Zeta and Lorchem for comparable purposes, was approximately $9.4 million for the twelve months ended December 31, 1999, compared to $10 million for the same period in 1998.

Also contributing to the increase in general and administrative costs in 1999 was a $0.2 million provision for possible uncollectible accounts receivable. The Company elected to set this amount up to recognize certain questionable accounts receivable that may or may not require a write-down in 2000.

General and administration expenses include salaries and benefits for office staff, rent, utilities and communications in the Company's various divisional offices and its corporate head office. General and administration expenses also include costs to maintain the Company's public listing and professional fees required to operate the head office.

This decrease in operating and general and administrative overhead in 1999 was directly due to several major initiatives undertaken in 1998 and 1999 to reduce our cost infrastructure in anticipation of the uncertain outlook for activity in the oil and gas sector during this period. These included the rationalization of our reporting entities from eight to four, the reduction of approximately 25 percent of our staff complement, the consolidation of our insurance, banking and benefits requirements and an overhaul of our vehicle management program.

Interest Expenses

Interest on long-term debt was $2.8 million or 7 percent of operating revenue in 1999 compared to $1.2 million or 3 percent of operating revenue in 1998. The increase was due to higher long-term debt in mid 1998 resulting from acquisitions and capital expenditures. Debt was further increased in 1999 due to net capital expenditures of $10.6 million including the acquisition of approximately $6.6 million in centrifuges in the fall of 1999.

Depreciation and Amortization

Depreciation and amortization was $5.6 million in 1999 compared to $5.1 million in 1998. The increase was due to the acquisition of Zeta and Lorchem in mid 1998 and net capital expenditures of $10.6 million in 1999.

Income Taxes and Net Income

Peak recorded net income from continuing operations of $1.0 million or $0.03 per share in 1999 compared to $1.7 million or $0.04 per share in 1998. The Company's total income

tax expense was $0.8 million or 26 percent of income before income taxes. The Company adopted the liability method of accounting for future income taxes in 1999. The new method calculates a future income tax liability based on book values versus tax values on the balance sheet in contrast to a deferred provision based on differences in income statement items for tax versus book purposes. The change in policy resulted in the set up of an additional $13.4 million in future tax liability that has been offset to opening retained earnings. The effective tax rate is low at the end of the year due to the recognition of losses available in the Company for tax purposes and is anticipated to return to the normal 45 percent level in 2000.

LIQUIDITY AND CAPITAL RESOURCES

Funds Provided by Operations

Funds provided by operating activities, before changes in non-cash working capital components, were $8.8 million in 1999 compared to $7.5 million in 1998. The increase was primarily due to higher depreciation and future income tax add-backs offsetting the lower earnings which resulted from lower activity levels in 1999.

Investments

Net cash used in investing activities in 1999 was $10.7 million compared to $35 million in 1998. The decrease was primarily due to the decrease in acquisitions in 1999. In 1998, the acquisitions of North Central, Zeta and Lorchem accounted for the majority of the investing activities at $17 million.

Financing

Net cash provided by financing activities in 1999 was $9.5 million compared to $22 million in 1998. The decrease was primarily due to the net increase in long-term debt decreasing from $26.4 million in 1998 to $11.2 million in 1999. The Company also repurchased $1.7 million in shares under a normal course issuer bid at an average price of $1.98 per share.

Liquidity

At December 31, 1999, Peak had net working capital of $10.8 million compared to $2.7 million at the end of 1998. The Company had shareholders' equity of $79 million at December 31, 1999, compared to $93 million at the end of 1998 (refer to note 1(h) and 2(a) of the Consolidated Financial Statements for details). Basic and fully diluted earnings per share from continuing operations were $0.03 for 1999 compared to $0.04 for 1998.

Long-Term Debt

Peak had long-term debt of $46.3 million at December 31, 1999, compared to $35 million at the end of 1998. The net capital expenditures of $10.6 million were the reason for the increase in debt in 1999. Including the Company's working capital of $10.8 million, results in net debt of $35.5 million on assets of $150 million and shareholders' equity of $79 million.

Subsequent to the end of fiscal 1999, the Company was successful in increasing its authorized debt capacity from $50 million to $65 million. While the reduction of the Company's level of debt continues to be a high priority for management in 2000, this increase in lending capacity has been established to enable Peak to capitalize on future growth opportunities as they arise.

The Company's current debt facility consists of:

- An acquisition facility authorized for $30 million reducing to $25 million at the end of March 2000. Currently the Company has $26.5 million drawn on this facility. This loan has the flexibility to be drawn down and repaid without incurring any penalties and is payable to National Bank requiring monthly interest payments only until May 2001. The Company anticipates this facility will be extended on an interest only basis for a further 24-month term coinciding with the annual review in May 2000. The loan is utilized to fund capital expenditures and acquisitions as required and is secured by accounts receivable and certain equipment.
- A $10 million loan payable to First Treasury Financial Inc. requiring monthly interest payments only of $64,000. Interest is calculated at 8.03 percent. The loan matures May 2004 and is secured by certain equipment. Effective January 2000, the authorized limit of this facility was increased by a further $15 million for a total authorization of $25 million. The additional funding is available for future capital expenditures and acquisitions as required.
- A $10 million loan payable to GE Capital Corporation requiring monthly payments of $147,031 including interest at bank prime rate plus 1.5 percent. The loan matures July 2004 and is secured by certain equipment.
- Loans of $200,000 payable to GE Capital Corporation requiring monthly blended payments of $13,000 including interest at prime plus 1.5 percent. The loans mature from May 2000 to June 2002 and are secured by equipment.

Share capital at December 31, 1999, consisted of 34.2 million common shares or 37.2 million common shares on a fully diluted basis.

Business Risk and Management

The oil and gas services industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. These companies base their capital expenditures on several factors including, but not limited to, hydrocarbon prices, production levels of their current reserves and access to capital. Activity levels are also ultimately dependent on these factors. However, there tends to be a lag time as most oil and gas producers and explorers do not change their capital expenditure budgets due to short-term changes in any one of the above factors.

The segments of the oil and gas service industry in which Peak operates are heavily reliant on the level of drilling activity in western Canada. There is a direct correlation between drilling activity and utilization rates for the Company's services.

Peak has a comprehensive insurance and risk management program in place to protect its assets and operations. This program meets or exceeds industry standards. The Company also has programs in place to ensure it meets or exceeds current environmental standards. Peak's internal safety procedures include detailed safety and operating procedure manuals for each of its subsidiaries, as well as required internal and external safety environmental response and operating training for all employees. The general managers of each of Peak's subsidiaries are required, in the event of any incident, to report to Peak's vice-president of operations.

YEAR 2000 COMPLIANCE

Management has reviewed its information technology systems to determine the Company's vulnerability to the year 2000 issue and has determined that the majority of Peak's systems are not at risk. There is a contingency plan in place in the event of problems, however, the change of date has occurred and no problems have been encountered as of this report.

OUTLOOK

In spite of the significant decline in activity levels experienced for a large portion of the year and the material shift to shallower gas drilling, Peak had a very positive fourth quarter in 1999 and the Company held up exceptionally well year over year. This is evidenced by the virtually flat revenue and earnings generated in a year that, up until the last quarter of 1999, witnessed a 30 – 35 percent decline in activity.

Peak remained focused on its positioning for future profitability in 1999. To this end, the following major initiatives were completed during the year:

- $50 million debt financing completed in May 1999 (recently upgraded to $65 million effective January 2000);
- major cost reduction program generating estimated savings of $4 million annually;
- the consolidation of 15 acquisitions into 4 key reporting entities, and;
- the timely and strategic acquisition of centrifuge assets in October 1999 that increased our solids control assets by 50 percent.

Peak continues to deliver on all of its strategic initiatives and shareholders are beginning to realize the positive impact of the Company's consolidation strategy and on-going commitment to profitability and return on invested capital.

During the first six weeks of 2000, the Company has experienced utilization rates of between 80 and 90 percent in our Drilling Services division. The only negative in this overwhelmingly positive environment is that pricing for our Drilling Services products remains approximately 15 percent below 1997 levels; however, prices have recently begun to increase. With a very strong start to 2000 and a positive outlook for the remainder of this year, we anticipate that prices will continue to firm as the year progresses.

Coupled with the significant increase in activity levels currently being experienced, the recent expansion of our solids control assets and the introduction of our Internet data server and gas detection equipment in our drilling instrumentation business will generate significant year over year growth. In addition, the Company is very well-positioned, with additional debt capacity and a strong working capital position, to capitalize on acquisition opportunities that will either be complimentary to its existing business or broaden the package of services now provided to its customers.

REPORT from MANAGEMENT

ALL information presented in the annual report is the responsibility of the Company's management. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

The Company's management has implemented and maintained internal controls to provide reasonable assurance that assets are properly safeguarded and that transactions and financial records are properly recorded and maintained to provide reliable financial information.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and KPMG, the Company's external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Christopher E. Haslam, CMA, CBV
President and Chief Executive Officer
March 15, 2000

Matthew J. Huber, CA, CMA
Vice-President, Finance
March 15, 2000

AUDITORS' REPORT to the SHAREHOLDERS

WE have audited the consolidated balance sheets of Peak Energy Services Ltd. as at December 31, 1999 and 1998 and the consolidated statements of income, retained earnings (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 15, 2000

CONSOLIDATED BALANCE SHEETS

As at December 31	1999	1998
(in thousands of dollars)		
ASSETS		
Current assets:		
Accounts receivable	$ 14,830	$ 10,447
Prepaid expenses	1,645	605
Inventory	902	890
	17,377	11,942
Capital assets (note 4)	109,951	105,074
Goodwill less accumulated amortization of $2,760 (1998 – $1,584)	21,043	22,001
Other assets (note 5)	1,410	–
	$ 149,781	$ 139,017
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (note 6)	$ 1,699	$ 920
Accounts payable and accrued liabilities	3,493	5,723
Current portion of long-term debt (note 7)	1,419	2,608
	6,611	9,251
Long-term debt (note 7)	44,866	32,469
Deferred income taxes	–	4,252
Future income taxes	19,646	–
Shareholders' equity:		
Share capital (note 8):		
Common shares	83,044	85,117
Contributed surplus	1,126	755
Retained earnings (deficit)	(5,512)	7,173
	78,658	93,045
Commitments (note 11)		
	$ 149,781	$ 139,017

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS of INCOME

Years ended December 31	1999	1998
(in thousands of dollars except per share amounts)		
Revenue	$ 40,573	$ 40,452
Expenses:		
Operating	17,588	17,183
General and administration	12,870	11,655
Depreciation	4,402	4,025
Interest on long-term debt	2,763	1,189
Other interest	–	77
	37,623	34,129
Income from continuing operations before income taxes	2,950	6,323
Income taxes (note 9):		
Current	(1,322)	2,885
Deferred	–	617
Future	2,093	–
	771	3,502
Income from continuing operations before goodwill amortization	2,179	2,821
Amortization of goodwill, net of tax	1,175	1,132
Income from continuing operations	1,004	1,689
Loss from discontinued operations (note 12)	(266)	(243)
Net income	$ 738	$ 1,446
Earnings per share before goodwill amortization		
Basic	$ 0.06	$ 0.08
Fully diluted	$ 0.06	$ 0.08
Earnings per share before discontinued operations	$ 0.03	$ 0.04
Earnings per share		
Basic	$ 0.02	$ 0.04
Fully diluted	$ 0.02	$ 0.04

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS of RETAINED EARNINGS (Deficit)

Years ended December 31	1999	1998
(in thousands of dollars)		
Retained earnings, beginning of year as previously reported	$ 7,173	$ 6,165
Change in method of accounting for income taxes (note 2)	(13,423)	–
Change in method of capital asset depreciation (note 2)	–	285
Retained earnings (deficit) as restated	(6,250)	6,450
Net income	738	1,446
Repurchase and cancellation of common shares in excess of stated capital	–	(723)
Retained earnings (deficit), end of year	$ (5,512)	$ 7,173

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS of CASH FLOWS

Years ended December 31 (in thousands of dollars)	1999	1998
OPERATING ACTIVITIES:		
Income from continuing operations	$ 1,004	$ 1,689
Add items not affecting cash:		
Depreciation and amortization	5,577	5,157
Loss on sale of equipment	88	–
Future income taxes	2,093	–
Deferred income taxes	–	617
	8,762	7,463
Change in non-cash working capital balances:		
Accounts receivable	(4,383)	3,915
Prepaid expenses	(1,040)	248
Inventory	(12)	(414)
Accounts payable	187	(2,180)
Income tax payable	(3,044)	1,951
Cash flow from continuing operations	470	10,983
Loss from discontinued operations	(266)	(243)
Add (deduct) items not affecting cash:		
Future income taxes	20	–
Deferred income taxes	–	(94)
Loss on sale of equipment	25	–
Depreciation	135	357
Cash flows from discontinued operations	(86)	20
	384	11,003
INVESTING ACTIVITIES:		
Acquisitions (note 3)	(115)	(16,646)
Purchase of equipment	(11,757)	(19,727)
Proceeds on disposal of equipment	2,627	1,394
Other assets	(1,410)	(87)
	(10,655)	(35,066)
FINANCING ACTIVITIES:		
Increase in long-term debt	26,500	27,871
Repayment of long-term debt	(15,292)	(1,519)
Issue of share capital	20	124
Repurchase of share capital	(1,706)	(4,602)
Share issue and repurchase costs	(30)	(164)
	9,492	21,710
Decrease in cash	(779)	(2,353)
Cash position, beginning of year	(920)	1,433
Cash position, end of year	$ (1,699)	$ (920)

Cash position is defined as cash less bank indebtedness.

See accompanying notes to consolidated financial statements.

GENERAL

Peak Energy Services Ltd. (the "Company") is a diversified Canadian energy services company operating in western Canada. Through its various operating segments, the Company provides well-site accommodations, solids control, drilling instrumentation and production services to drilling contractors and producers in the oil and gas industry.

1. **SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

(b) Inventory:

Inventory of raw materials, replacement parts and other supplies are stated at the lower of cost determined on a specific or average cost basis, and replacement value.

(c) Capital assets:

Capital assets are stated at cost. Depreciation is provided over the useful lives of the assets using the following methods and rates:

Asset	Method	Rate
Vehicles and equipment	Declining balance	20%
Machinery and equipment	Declining balance	10 to 20%
Buildings	Straight-line	5 to 25 years
Office and computer equipment	Declining balance	10 to 30%

Depreciation on certain rental assets is provided on a utilization basis based upon estimated useful lives of up to 5,475 rental days.

(d) Goodwill:

Goodwill, which represents the excess of the costs of acquisition over the attributed fair value of assets and liabilities acquired, is amortized on a straight-line basis over twenty years. Management reviews the valuation and amortization of goodwill, taking into consideration the nature of the industry and the circumstances which might impair the value. The amount of impairment, if any, is determined based on estimated future undiscounted cash flows. Any permanent impairment in the value of goodwill is written off against earnings.

(e) Earnings per share:

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Fully diluted earnings per share gives effect to options as if they had been outstanding from the beginning of the period or their issue date.

(f) Stock-based compensation plans:

The Company has a stock-based compensation plan which is described in detail in Note 8(d). No compensation expense is recognized for these plans when stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option canceled is charged to retained earnings.

(g) Revenue recognition:

The Company recognizes revenue for services and products at the time they are provided.

(h) Income taxes:

The Company has adopted the liability method of accounting for income taxes (Note 2). Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences — the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis.

(i) Use of estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions based on information available as of the date of the consolidated financial statements. Actual results could differ from those estimates.

(j) Comparative figures:

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

(Tabular amounts in thousands of dollars)

2. **CHANGES IN ACCOUNTING POLICIES**

(a) Income taxes:

In 1999, the Company adopted the liability method relating to accounting for income taxes. Previously the Company followed the deferral method. The new policy has been applied retroactively and opening retained earnings has been reduced by $13,423,000 representing the cumulative effect of the change on prior periods, from $7,173,000 to a deficit of $6,250,000. Comparative financial statements have not been restated.

(b) Depreciation:

During 1998, the Company retroactively adopted a utilization method of depreciating rental assets on a rental day basis. As a result of this change, depreciation expense for the year ended December 31, 1998 was reduced by $2,912,000. The change to opening retained earnings in 1998 was $285,000.

3. **BUSINESS ACQUISITIONS**

(a) On July 31, 1998 the Company purchased the assets of Lorchem Industries Limited ("Lorchem") for cash consideration of $8,581,000. Lorchem provides specialty fluid handling for producing oil and gas wells and has significant long-term contracts with key customers.

(b) On June 2, 1998 the Company acquired all the issued and outstanding common shares of Zeta Oilfield Rentals Ltd. ("Zeta") for total consideration of $8,040,000 consisting of $6,665,000 in cash and the issuance of 367,000 common shares of the Company. Zeta provides an extensive fleet of drilling, completions, workover and production rental equipment.

(c) On January 31, 1998 the Company acquired all the issued and outstanding common shares of North Central Tank Rentals Ltd. ("North Central") for cash consideration of $1,400,000. North Central rents storage tanks to the oil and gas industry.

(d) In 1999, the Company has recognized an additional $215,000 of goodwill which arose as contingent consideration on a 1997 acquisition. The $215,000 consists of $115,000 paid in the period and $100,000 accrued for consideration to be paid in the future.

All acquisitions were accounted for using the purchase method. Details of the purchases are as follows:

	Lorchem	Zeta	North Central	Total
Working capital (deficiency)	$ –	$ (1,190)	$ 185	$ (1,005)
Capital assets	8,581	9,021	1,106	18,708
Deferred income taxes	–	–	(20)	(20)
Long-term debt	–	(2,100)	(71)	(2,171)
Goodwill	–	2,309	200	2,509
Consideration	$ 8,581	$ 8,040	$ 1,400	$ 18,021

4. **CAPITAL ASSETS**

1999	**Cost**	**Accumulated depreciation**	**Net book value**
Rental assets	**$ 92,912**	**$ 6,938**	**$ 85,974**
Vehicles and equipment	**18,554**	**3,593**	**14,961**
Machinery and equipment	**1,814**	**291**	**1,523**
Land and buildings	**2,222**	**173**	**2,049**
Office and computer equipment	**5,950**	**506**	**5,444**
	$ 121,452	**$ 11,501**	**$ 109,951**

1998	**Cost**	**Accumulated depreciation**	**Net book value**
Rental assets	$ 82,456	$ 3,778	$ 78,678
Vehicles and equipment	20,096	2,626	17,470
Machinery and equipment	1,822	166	1,656
Land and buildings	2,180	146	2,034
Office and computer equipment	5,619	383	5,236
	$ 112,173	$ 7,099	$ 105,074

(Tabular amounts in thousands of dollars)

5. **OTHER ASSETS**

The Company holds a long-term investment at cost with a market value of $850,000 at December 31, 1999.

6. **BANK INDEBTEDNESS**

	1999	1998
Cheques issued in excess of funds on hand	$ 539	$ 920
Bank operating line	1,160	–
	$ 1,699	$ 920

At December 31, 1999 the Company has a revolving demand loan of $5 million with a Canadian bank, to finance operations, of which $1,160,427 was utilized at December 31, 1999. This facility was established on October 18, 1999 and expires May 2001. Interest is at bank prime rate or at Bankers Acceptance rates plus a stamping fee of 1.25%.

This facility is secured by a general assignment of book debts and a general security agreement.

7. **LONG-TERM DEBT**

	1999	1998
Revolving demand loan, facility of $30,000,000, expires May 31, 2001. Monthly interest payments only until May 2001. Monthly payments commence on maturity of approximately $535,000 including interest over a five year period. Interest at bank prime rate plus 0.75% or at Bankers Acceptance rates plus a stamping fee of 1.5%. Secured by accounts receivable and certain equipment.	$ 26,500	$ 24,850
Loan payable requiring monthly interest payments only until December 2000. Interest at 8.03%. Loan matures May 2004 and is secured by certain equipment.	10,000	–
Loan payable requiring monthly payments of $147,031 including interest at bank prime rate plus 1.5%. Loan matures July 2004 and is secured by certain equipment.	9,585	–
Loans payable requiring monthly principal payments of $13,000 including interest at bank prime rate plus 1.5%. Loans mature from May 2000 to June 2002 and are secured by certain equipment.	200	402
Loan payable requiring monthly payments of $83,000, plus interest at bank prime rate plus 0.5%. Loan matures November 2003 and is secured by accounts receivable and certain equipment.	–	4,964
Loan payable requiring monthly payments of $100,000 plus interest at bank prime rate plus 0.5%. Loan matures December 2002 and is secured by accounts receivable and certain equipment.	–	4,861
	46,285	35,077
Less current portion	1,419	2,608
	$ 44,866	$ 32,469

Principal payments due in the next five years are as follows:

2000	$ 1,419
2001	5,159
2002	6,970
2003	7,447
2004	8,192

(Tabular amounts in thousands of dollars)

8. **SHARE CAPITAL**

(a) The authorized share capital of the Company consists of an unlimited number of common shares.

(b) Issued:

	Number of Common shares	Amount
Balance, December 31, 1997	36,480	$ 88,343
Business acquisitions (note 3)	367	1,375
Issued on exercise of share options	82	124
Repurchased and cancelled	(1,911)	(4,634)
Less share issue costs (net of deferred income taxes of $73,000)	–	(91)
Balance, December 31, 1998	35,018	$ 85,117
Exercise of share options	55	21
Repurchased and cancelled	(862)	(2,077)
Less share issue costs (net of future income taxes of $13,000)	–	(17)
Balance, December 31, 1999	**34,211**	**$ 83,044**

(c) Contributed surplus:

Contributed surplus arose upon the repurchase and cancellation in 1998 and 1999 of common shares below their stated capital.

(d) Share options:

The Company has reserved 3,550,000 common shares pursuant to a Stock Option Plan ("the Plan"). Options to purchase common shares of the Company under the Plan may be granted by the Board of Directors to certain full-time employees and officers of the Company. As at December 31, 1999 there were employee stock options outstanding to purchase 3,012,550 (1998 – 2,084,050) common shares at prices ranging from $0.30 to $6.40 per share, with expiry dates ranging from June 2001 to September 2004.

A summary of the status of the Company's stock option plan as of December 31, 1999 and 1998 and changes during the years ending on those dates is presented below:

	1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**2,159**	**$ 3.28**	2,025	$ 3.67
Granted	**1,093**	**1.76**	544	2.69
Exercised	**(55)**	**0.38**	(85)	1.50
Cancelled	**(74)**	**3.55**	(325)	4.93
Other	**(85)**	**4.75**	–	–
Outstanding at end of year	**3,038**	**$ 2.64**	2,159	$ 3.28
Exercisable at year end	**1,380**		766	

The following table summarizes information about stock options outstanding at December 31, 1999:

Range of Exercise Prices	Number Outstanding at December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 1999	Weighted Average Exercise Price
$ 0.30 to 1.20	1,059,000	2.5	$ 0.95	482,333	$ 0.65
$ 1.30 to 2.05	335,000	4.4	1.76	35,000	2.01
$ 2.10 to 2.75	759,550	2.8	2.65	476,217	2.59
$ 2.80 to 2.85	304,000	3.7	2.83	–	–
$ 5.15 to 6.40	580,000	2.7	6.11	386,667	6.11
$ 0.30 to 6.40	3,037,550	3.0	$ 2.64	1,380,217	$ 2.90

(Tabular amounts in thousands of dollars)

9. **INCOME TAXES**

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates of 44.6% to income before income taxes. The reasons for the differences are as follows:

	1999	1998
Income tax rate	**44.6%**	44.6%
Computed tax expense	**$ 1,316**	$ 2,820
Change resulting from:		
Non-tax base depreciation	**–**	615
Other	**(43)**	107
Benefit of non-capital losses	**(502)**	(40)
	$ 771	$ 3,502

The components of the net future income tax liability at December 31, 1999 is as follows:

Future income tax assets:	
Benefit of non-capital losses	$ 2,093
Future income tax liabilities	
Property, plant and equipment	(21,666)
Other	(73)
	(21,739)
Net future income tax liability	$ (19,646)

The Company has net capital losses available of approximately $6.7 million for income tax purposes which may be carried forward indefinitely to reduce future taxable capital gains. The potential tax benefits of these losses have not been recognized in these financial statements.

10. **FINANCIAL INSTRUMENTS**

(a) Risk management activities:

The Company does not have a significant exposure to any individual customer or counter party. Concentration of credit risk on the Company trade accounts receivable exists in the oil and gas industry.

(b) Fair values:

The carrying values of cash and short-term deposits, cheques issued in excess of funds on hand, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of long-term debt approximates the carrying amount because it is at floating interest rates.

11. **COMMITMENTS**

The Company is committed to payments under operating leases for equipment and buildings approximately as follows:

2000	$ 1,573
2001	1,009
2002	716
2003	494
2004	373

12. **DISCONTINUED OPERATIONS**

In April 1999, the Company sold the assets of Chimo Polyurethanes Ltd.. The net gain on the sale of discontinued operations amounted to $28,000 after income taxes of $26,000. Operating losses for the year amounted to $56,000 after income tax recoveries of $44,000. Discontinued operations generated revenues of $359,000 to the date of disposal, which have been excluded from consolidated revenues.

In March 1999, the Company wound down the operations of Freedom Oilfield Hauling (1996) Ltd. with the intention of selling the assets. The net loss on the sale of discontinued operations amounted to $44,000 net of income tax recoveries of $35,000. Operating losses for the year amounted to $194,000 net of income tax recoveries of $157,000. Discontinued operations generated revenues of $391,000 which have been excluded from consolidated revenues. Assets with a net book value of $60,000 remain to be sold.

(Tabular amounts in thousands of dollars)

13. **UNCERTAINTY DUE TO THE YEAR 2000 ISSUE**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

14. **SEGMENTED INFORMATION**

The Company operates in four industry segments which are substantially in one geographic segment. The Drilling Services division includes well-site accommodations, which is engaged in the manufacturing and rental of high quality well-site accommodation units used as living quarters for staff on remote locations in the oil and gas industry; solids control, which is engaged in the rental of sumpless drilling systems comprised of a series of tanks and centrifuges; and drilling instrumentation, which is engaged in the manufacturing and rental of electronic instrumentation equipment used to monitor data on the drill site. The Production Services division is engaged in providing tension anchor services for well servicing, the rental of frac/production tanks, pressure vessels, tubulars, pumps and tank truck services for completion fluids.

1999	Well-Site Accommodations	Solids Control	Drilling Instrumentation	Production Services	Total
Revenue	**$ 8,494**	**$ 10,608**	**$ 5,801**	**$ 15,670**	**$ 40,573**
Interest on long-term debt	**642**	**1,006**	**275**	**840**	**2,763**
Depreciation and amortization	**1,071**	**1,810**	**494**	**2,202**	**5,577**
Income before income taxes	**1,074**	**228**	**214**	**1,434**	**2,950**
Total assets	**34,510**	**54,761**	**15,358**	**45,152**	**149,781**
Capital expenditures	**1,495**	**6,893**	**1,449**	**1,920**	**11,757**

1998	Well-Site Accommodations	Solids Control	Drilling Instrumentation	Production Services	Total
Revenue	$ 11,462	$ 11,340	$ 5,361	$ 12,289	$ 40,452
Interest on long-term debt	444	435	88	222	1,189
Depreciation and amortization	1,512	1,401	410	1,834	5,157
Income before income taxes	2,038	1,592	556	1,005	5,191
Total assets	43,717	42,365	13,357	39,578	139,017
Capital expenditures	3,944	7,644	2,766	5,373	19,727

BOARD OF DIRECTORS

William H. Gallacher
Executive Vice President and Managing Director, Avenir Capital Corporation
President, Gallant Energy Ltd.
Director, Highland Energy Ltd.
Director, Eta Energy Ltd.

Richard A. Grafton
President, Avenir Capital Corporation
Director, Merit Energy Ltd.

Christopher E. Haslam
Chairman of the Board,
President and Chief Executive Officer

Frederick A. Moore
President, Nusco Manufacturing and Supply Ltd.

R. D. Barry Sullivan
Director, Safe Harbour Capital Ltd.

Lloyd Swift
President, Square Butte Resources Inc.
Director, Morrison Facility Income Fund
Director, Rio Alto Exploration Ltd.

MANAGEMENT

Christopher E. Haslam
President and Chief Executive Officer

Matthew J. Huber
Vice President, Finance

Curt W. Whitteron
Vice President, Operations

Shari Gauthier
Corporate Controller

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The Montreal Trust Company
Calgary, Alberta

LEGAL COUNSEL

Burstall Ward
Barristers and Solicitors
Calgary, Alberta

BANKER

National Bank of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Symbol: "PES"

ANNUAL MEETING

The Annual Meeting of the shareholders of Peak Energy Services Ltd. will be held on June 1, 2000, at 10 am in the Cardium Room of the Calgary Petroleum Club, 319–5th Avenue SW, Calgary, Alberta. Shareholders are encouraged to attend. Those unable to do so should complete and forward the forms of proxy to the Montreal Trust Company.

Peak's management team (right to left):
Chris Haslam, President and Chief Executive Officer; **Curt Whitteron**, Vice President, Operations; and, **Matt Huber**, Vice President Finance

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